Annual Report

1989-1990

Economic Council of Canada

Conseil economique du Canada

Contents

3 Letter of Transmittal
4 A Message from the Chairman
7 The Research Process
10 Members of the Economic Council of Canada
12 Research Activities, 1989-90
16 Ongoing Research
18 Publications of the Economic Council of Canada, 1989/90
19 Auditor's Report
20 Statement of Operations
22 Organization Structure

Minister of Supply and Services Canada, 1990
Cat. No. EC1-1990E
ISBN 0-662-17972-2
Le *Rapport annuel* est aussi disponible en français.

90-07029/

Economic Council of Canada
Chairman

Conseil économique du Canada
Présidente

June 30, 1990

The Right Honourable Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1990, as required by the *Economic Council of Canada Act*.

Yours sincerely

Judith Maxwell

Judith Maxwell
Chairman

P.O. Box 527
Ottawa, Ontario
K1P 5V6

C.P. 527
Ottawa (Ontario)
K1P 5V6

A Message from the Chairman

One of the most striking legacies of the 1980s is the vibrancy in world trade and capital flows. The repercussions can be seen throughout Canadian society – in the way production is organized and in the way the workplace functions. These factors, in turn, influence the way in which governments perform their role in encouraging growth, stabilizing economic activity, and redistributing income. Quite naturally, such changes affect people in every region of Canada; for that reason, they also have a significant impact on the research agenda of the Economic Council of Canada.

As an example of these changes, the global integration of production systems has accelerated as a result of the volatility of exchange rates, which now appear to be determined more by capital flows than trade balances. To protect themselves against unfavourable currency fluctuations or unexpected trade barriers, many firms are locating production facilities in each of their major markets. But these production units are usually intended to be an integral part of a global production system. As these investments occur, national economies become more interdependent, with both exports and imports growing in importance. Canada is no exception, as witness the dramatic increase in the volume of exports and imports as a share of total output in the economy – from 27 per cent in 1981 to 32 per cent in 1989.

New Business Connections

At the same time, companies are reorganizing their global activities to take advantage of the extraordinary speed with which lifestyles and ideas are transmitted. This means capturing the economies of scale in marketing and advertising.

In addition, companies seek to take advantage of falling trade barriers within Europe and between Canada and the United States.

The net result is a business community that is even more internationally connected than in the past. Our economy is now more open, more integrated into the world community: Canadian firms are out there exploiting new market opportunities, and Canadian consumers are unabashed users of foreign-made products and services.

This complex web of business relationships has a number of implications for economic policy. In particular, the new outward orientation may distract Canadians from their internal connections. For example, as trade linkages between each of the provinces and the United States grow under the impact of the trade agreement, the economic ties that hold Canada together may erode. Similarly, as British Columbia and Alberta build bridges across the Pacific, their connections to the rest of the country may weaken. In short, we must be conscious that the forces of internationalization that are propelling much of the world economy may adversely affect the bonds within Canada; and we must consider carefully the appropriate responses.

As the country becomes more dependent on this web of international business relationships, the power of the private sector is enhanced. It is more difficult for Canadian governments to use regulations and taxation to promote national objectives when they have only a partial hold on a range of global activities. Moreover, companies can shift production to locations that offer the most attractive climate for their operations. So there is a risk here that Canadians – and Canadian policy-makers – will have a sense of powerlessness.

But one should not overemphasize the negative aspects of Canada's integration into the international economy. The process of reaching outward is one that builds a stronger economy – one that can, and should, produce higher living standards for Canadians in the 1990s. Ideally, that economic strength should buttress our sense of purpose.

Another force that will have a pronounced impact on the power of the federal government to manage the economy in the 1990s is the overhang of debt. This makes Canada exceptionally vulnerable to high interest rates, and it has already led to an attrition in the power of the central government to meet the expectations of its citizens. Clearly, a robust, outward-looking economy would generate the revenues needed to pay down the debt and get on with the job of governing.

New Social Challenges

The new worldwide dynamics also generates a new set of pressures on Canada's social structure, so we need to think out new ways of solving problems and sharing risks.

On the positive side, Canada has created many new jobs since 1982. The proportion of the population aged between 15 and 65 that is actually working is higher than it has ever been. Major progress has been made in reducing poverty among the elderly. At the same time, new

challenges have emerged, and some old ones remain unresolved.

One unresolved issue is our continuing incapacity to build the kind of institutional environment that would help to manage inflationary pressures when they begin to build up at the end of the business cycle. Canadians learned some tough lessons about inflationary behaviour in the harsh recession of 1981-82. At the beginning of the 1990s, however, we find ourselves once again using the same blunt instrument of monetary policy to try to beat back inflationary pressures in prices and costs (including taxes). Little progress was made over the 1980s in forging the kind of partnership between labour and management and between the public and private sectors that would reduce our dependence on a credit squeeze to avoid inflation.

New challenges have emerged because changes in the family structure and in the labour market have dramatically altered the nature of poverty and have put new demands on the social safety net. In the labour market, the Council has found that a polarization has occurred in the area of wages, with the proportion of middle-income jobs declining over the past 20 years. And we know that any family dependent on a single earner could not make ends meet if that person were employed in one of the growing number of low-paid and insecure jobs.

Numerous studies have identified the importance of education in improving one's chance in life. The poorly educated and the illiterate now face much higher risks of unemployment and inadequate incomes than they did 10 or 20 years ago (as we showed in a Statement entitled *Good Jobs, Bad Jobs*, published earlier this year). Even those who are well educated may find themselves changing jobs frequently, and each new job may well require more education or retraining.

In sum, we are dealing with new kinds of economic insecurity that are particularly debilitating for single parents and for the illiterate. These new challenges come at a time when the federal government is weighed down by a huge deficit. That makes it unlikely that the federal spending power can be used as the main lever to modernize the social safety net.

The Council's Agenda

The combination of vibrant trade and capital flows and the changes in social structure will place a premium on two related objectives in the 1990s. The first will be to buttress the competitiveness of Canadian firms so that they are strong enough in the international marketplace to bring home the bread and butter that raises living standards. The second will be to reinforce the cohesion of Canadian society. Without a strong sense of purpose, we will dissipate our political energy on internal tensions while our trading partners will be concentrating on competitiveness.

Cohesion

The Economic Council, whose members represent all regions of the country, wants to make a constructive contribution to this delicate situation. We will do that by focusing much of our research effort over the next few years on issues that are central to the bonds that connect the disparate parts of this country.

The next major Statement by the Council will examine the role of local-development organizations in addressing the economic stagnation that afflicts many communities of the country. It will set out guidelines for public support for these organizations.

The Twenty-Seventh Annual Review will examine the changing nature of unemployment in Canada and the weaknesses in the political institutions that militate against a national consensus on the goals for economic and labour market policies.

A forthcoming report on immigration will examine the economic and social repercussions of the immigration flows that have been transforming Toronto, Vancouver, and Montréal.

We have made a major investment in a new data system that will provide new analytical insights into the economic mobility of Canadians and into the strengths and weaknesses of the tax and transfer system. Who are the Canadians who depend on social assistance and other support systems? What makes them dependent and how long does that dependency last? Early research results are expected in 1990 and the Council's report will be made public in 1991.

Competitiveness

The other major theme for Council research is competitiveness, which, to the economist, means the productive performance of Canadian firms. Here we face two challenges: understanding the nature of the changes in the world economic system, and interpreting their significance for Canada.

In *A New Frontier*, for example, the Council probed the implications for Canada's financial institutions of

internationalization and innovation in global financial markets.

In a project on competitiveness and trade performance, we will examine the market shares of a large number of Canadian industries in various world markets and then assess the extent to which their cost performance can explain the trend in market share. We will also explore the impact of technology on productive performance in a number of industries.

In the meantime, the Council is investing more energy in mapping out the economic and political strengths of the new countries that are entering world industrial markets, looking specifically at the Asia-Pacific region (in a joint project with the Thailand Development Research Institute) and at Eastern Europe.

Two new projects will have a bearing on both of our themes – cohesion and competitiveness. In examining the economics of education (launched in May 1990 and of health care scheduled to begin early in 1991), we shall look at the effectiveness of two non-market sectors that have a great bearing on productive performance and that also constitute a key element of the fiscal sharing that has characterized Canada's approach to major social issues.

Each of the Council's projects is meant to produce insights that will help policymakers to make progress towards improving the quality of life and the standard of living of Canadians. Two guiding themes linking these projects are a concern for how tall we stand in the world marketplace and a need to ensure that Canadians can have confidence in their economic system. That confidence will, in turn, build the internal cohesion that is an essential building block for a strong economy.

The Research Process

The Economic Council of Canada is an independent research body with a mandate to advise governments on economic issues of national or regional importance.

More precisely, it offers economic policy advice to decision makers based on in-depth research, careful analysis, and extensive consultation with experts in both the public and private sectors. The Council strives to inform Canadians about the major economic issues and to provide policymakers with recommendations based on a consensus of Council members. It also seeks to foster an exchange of ideas and opinions about economic issues among the various economic actors and the Canadian public as a whole.

In a formal sense, the Council is composed of a Chairman and two full-time Directors, as well as 25 members drawn from business, labour, and a variety of other economic agencies in accordance with the principle of balanced regional representation. It is, in some ways, a microcosm of the Canadian economy in all its diversity. All members are appointed by the Prime Minister for three-year terms.

The Council researches problems that it has identified itself, as well as specific questions referred to it by the government. In addition, the Council publishes an Annual Review outlining medium- and long-term economic prospects for Canadians.

The Council's Uniqueness

Canada today benefits from a much richer supply of economic research than it did just 20 years ago. A wide variety of research organizations have emerged, each concerned with specific aspects of the Canadian economy.

The Economic Council of Canada, however, remains unique. Some of the key elements that set it apart from other economic research groups are as follows:

- it is an independent organization, financed by the federal government but free to set its own agenda of national and regional issues;
- its unique make-up enables it to draw upon the expertise of both its staff economists and eminent scholars, while benefiting from the social, geographical, and political representation provided by members of the Council;
- thanks to its resources and structure, the Council can plan and carry out large-scale economic research projects with a medium- and long-term horizon;
- it is the only economic research organization with a proven track record of research and publication in both official languages. The Council thus fosters exchange among English- and French-speaking economists and between Canada and the rest of the world;
- the Council's research is aimed at a vast audience comprising governments, provincial legislatures, business, labour, academia, the mass media, and the Canadian public.

The Council's special characteristics combine to create a climate in which research aimed at identifying policies designed to increase the well-being of Canadians can flourish.

The Council has also taken on an important role as a bridge between the world of academic research and the government authorities with the actual power to set economic policy. Its professional resources, the high quality of its research staff, and its position as a national, independent organization place it in a special position to test, by in-depth empirical analysis, the theories developed by academics. The Council's findings can then be used by government officials in designing policies and programs.

The Council's major research projects are usually from one to three years in duration. During the course of the projects, the Council releases studies and working documents presenting some of the preliminary results of its research. The findings are also often presented as part of the annual review of Canada's performance and potential.

Stages of a Research Project

The hallmark of the Council's work is high-quality research, coupled with recommendations based on a consensus of the Council's members. From planning to publication, a typical research project reflects the unique character of the Council.

Obviously, the first step is to identify and choose from among the possible research topics. Council officials consult with a wide variety of economic observers right across the country, including Council members themselves.

An initial screening is conducted by the Council's management and senior research directors. The next step involves exploratory or feasibility studies so that the research directors may determine the overall work plan of the particular project, the principal areas of research, the resources required for its completion, and the general research time frame. An outline of the proposed research project is then presented to the Council for discussion.

The next priority for the project director is to put together his research team. Its members may include Council staff economists or researchers from Canadian universities working on contract.

At the same time, an advisory committee is set up. It includes three Council members and eight experts chosen for their particular knowledge or experience in the field.

As the project unfolds, the advisory committee reviews the progress of research, assesses the preliminary findings, and ensures that the project is proceeding in accordance with the general mandate originally given by the Council. The advisory committee does not take responsibility for the formulation of recommendations, which is the final step of the research. That prerogative belongs exclusively to Council members.

After about 12 months, the project team submits a progress report at one of the Council's quarterly meetings, where members have the opportunity to comment at length on the direction the research is taking.

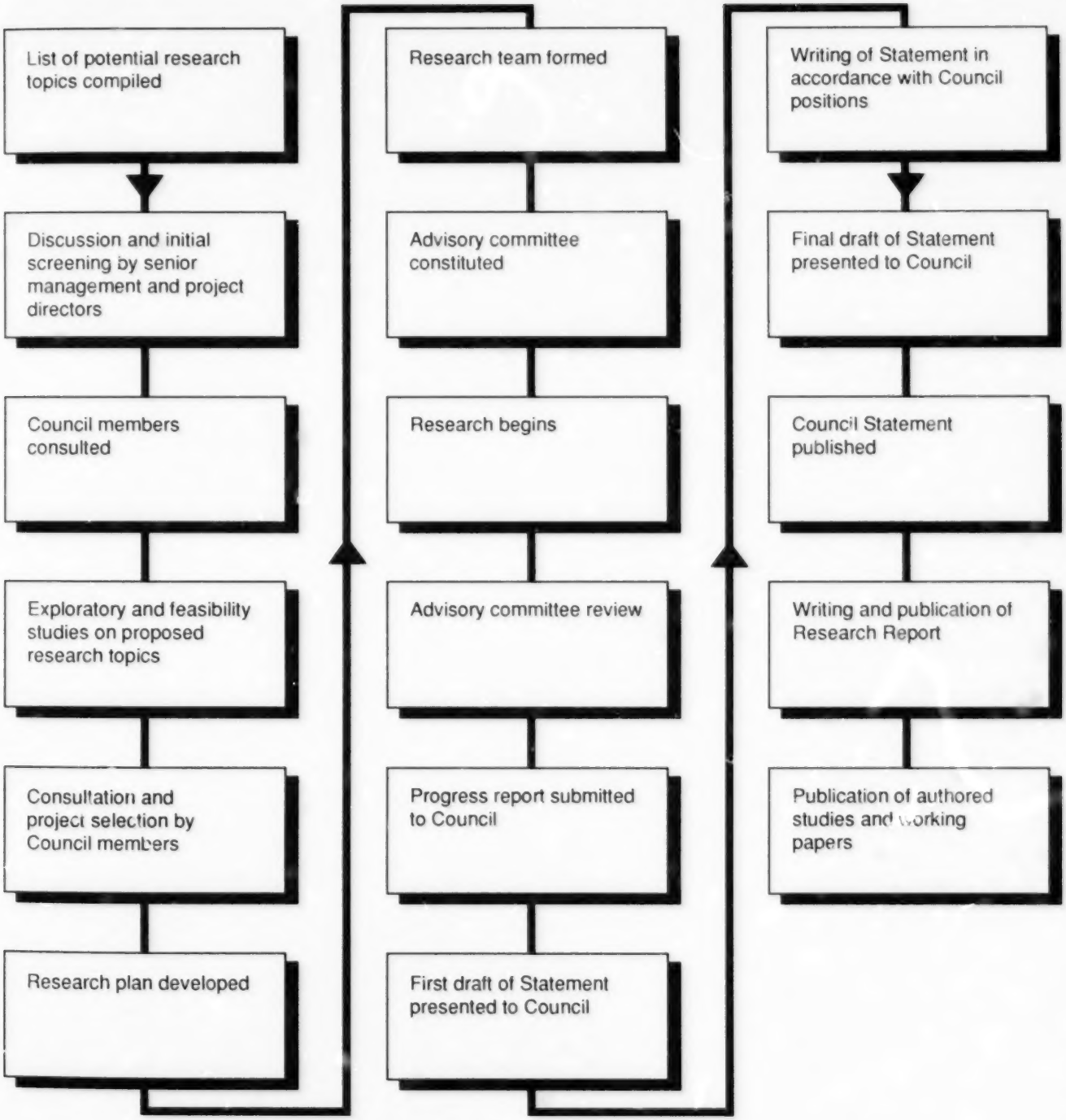
A draft Statement, including a series of proposed recommendations, is eventually presented to the Council members for discussion. This step enables them to provide a valuable input which reflects their various points of view. The revised consensus statement is then approved by the Council's members; members who disagree with the final version of the recommendations have the right to dissent.

The publication of the Statement is the culmination of the research process. The document lays out the consensus views of the Economic Council in light of the research carried out by its researchers and a thorough vetting of the results by Council members. Prior to the Statement's release, information workshops are held for government decision makers at both the federal and the provincial levels.

Following the publication of the Statement, the research team puts the finishing touches to the research report, which provides the technical details of the findings on which the Statement is based.

The most important pieces of work that fed into the project are also published separately as "Studies" or "Working Papers." These publications remain the responsibility of their authors and their findings are not officially endorsed by the Council. They are distributed to the media, to universities, to governments, and to other interested groups and individuals.

The Council also publishes a quarterly magazine, entitled *Au Courant*, which discusses work in progress and offers interviews and articles about the Council's activities and publications.


List of potential research topics compiled
Discussion and initial screening by senior management and project directors
Council members consulted
Exploratory and feasibility studies on proposed research topics
Consultation and project selection by Council members
Research plan developed
Research team formed
Advisory committee constituted
Research begins
Advisory committee review
Progress report submitted to Council
First draft of Statement presented to Council
Writing of Statement in accordance with Council positions
Final draft of Statement presented to Council
Council Statement published
Writing and publication of Research Report
Publication of authored studies and working papers

Members of the Economic Council of Canada

Judith Maxwell
Chairman

Caroline Pestieau
Deputy Chairman and
Director of Council

Harvey Lazar
Deputy Chairman and
Director of Council

Miller H. Ayre
President and Chief Executive Officer
Ayre's Limited
St. John's, Newfoundland

Diane Bellemare
Professor
Department of Economics
Université du Québec à Montréal
Montréal, Quebec

Jalynn H. Bennett
President
Jalynn H. Bennett Associates Limited
Toronto, Ontario

Alan A. Borger
President
Ladco Company Limited
Winnipeg, Manitoba

Peter M. Brophey
North York, Ontario

Dian Cohen
President
Dian Cohen Productions
Ayres Cliff, Quebec

Thomas J. Courchene
Director
School of Policy Studies
Queen's University
Kingston, Ontario

Léon Courville
Executive Vice-President
National Bank of Canada
Montréal, Quebec

Alix Granger
Vice President
Royal Bank of Canada
Dominion Securities Pemberton
Vancouver, British Columbia

Yves Guérard
President
Groupe Sobeco Inc.
Montréal, Quebec

Nancy R. Jackman
President
443472 Ontario Limited
(Investment Corporation)
Toronto, Ontario

Chester A. Johnson
Chairman and
Chief Executive Officer
Western Pulp Inc.
Vancouver, British Columbia

William Mackness
Dean
Faculty of Management
University of Manitoba
Winnipeg, Manitoba

Marcel Pepin
Professor
École de Relations industrielles
Université de Montréal
Montréal, Quebec

Struan Robertson
Chairman
Central Guaranty Trust Company
Halifax, Nova Scotia

Rix Rogers
President
Rix G. Rogers & Associates
Oakville, Ontario

Bartlett B. Rombough
President and Chief Executive Officer
PanCanadian Petroleum Limited
Calgary, Alberta

Ken W. Stickland
President
KenAgra Management Services Ltd.
Edmonton, Alberta

Michael A. Sullivan
Chartered Accountant
Summerside, Prince Edward Island

Norman E. Wale
Vice-President
Investor and Industry Relations
Canadian Pacific Limited
Montréal, Quebec

H. Graham Wilson
Vice-President and Secretary
Dofasco Inc.
Hamilton, Ontario

Council Meetings, 1989-90

The Economic Council meets four times a year to discuss its research agenda. During those meetings, members review current economic policy and examine the various policy options developed jointly with Council researchers.

In 1989-90, meetings took place in Vancouver (June) and Toronto (September), with the final two meetings held in Ottawa (December and March).

All four meetings were chaired by Judith Maxwell, the Chairman of the Council.

At these meetings, ECC management reviewed the current research activities of the Council, and project directors reported on progress in their respective areas.

Vancouver Meeting – 20 and 21 June 1989

The two main subjects of this meeting were the Twenty-Sixth Annual Review, which focuses on intergenerational equity, and the Statement on the globalization of financial markets. Members also discussed the preliminary findings of the project on service-sector employment.

Toronto Meeting – 19 and 20 September 1989

This meeting concentrated on the Statement on employment in the service sector. In addition, the preliminary findings of research on mergers and acquisitions were also reviewed, and a progress report on regional development was presented and discussed by Council members.

Ottawa Meeting – 5 December 1989

On this occasion, Council members discussed the Twenty-Seventh Annual Review, which will focus on unemployment. A progress report on Canadian competitiveness and trade performance was also on the agenda. Members were briefed on the basic structure of the Council's proposed research project on education.

Ottawa Meeting – 6 and 7 March 1990

Council members discussed the preliminary findings of the project on immigration. They also examined research results from the social policy project. The final major items on the agenda were the Council's proposed Statement on Local Development and the preliminary work for the Twenty-Seventh Annual Review.

Research Activities, 1989-90[1]

The Twenty-Sixth Annual Review

The Twenty-Sixth Annual Review, entitled *Legacies*, addressed intergenerational issues. It focused on the legacy of persistent federal deficits, mounting public debt, environmental degradation, and relatively poor productivity performance that the current working generation has inherited. It presented medium-term economic projections and targets, and demographic projections to the year 2040. It considered alternative courses of action that would leave a more favourable economic legacy to future generations of Canadians. It looked into the next century, when the proportion of Canadians aged 65 years and over will more than double, and it questioned how the working generation of that time will cope with the additional health-care and income-support costs. Finally, it urged additional fiscal restraint and early restoration of the federal government's fiscal balance.

Members of the research group included Robert A. Jenness, project director, Gordon Betcherman, Christina Caron, Ronald Hirshhorn, Norman Leckie, Bimal Lodh, Sunder Magun, Pierre Mercier, Someshwar Rao, Farah Tcharkari, and Lise Sabourin, secretary. The Performance and Outlook group included Ross S. Preston, project director, Andrew Burns, Bobbi Cain, Pat E. Nevin, Haider M. Saiyed, and Mary Rowe, secretary.

1 After completing their work on one project, some researchers moved on to another during the year; thus some names appear under two different projects.

Regional Development

The results of the Council's research on the Directions for Regional Development were reported in a series of 18 Local Development Papers that captured the diversity of the local-development experience in Canada.

International Financial Markets

The Council released a Statement and a research report on international financial markets. The Statement, entitled *A New Frontier*, gave some answers and proposed policies to improve the Canadian financial system. The document described the transformation of international financial markets in recent years. It discussed new financial services and noted that new technology is binding the financial world into a single global marketplace. The report also dealt with such issues as the competitiveness of Canadian financial institutions internationally and the impact of new services on Canadian markets. The Council's policy proposals were designed to strengthen competitiveness and to improve the supervision of financial firms. The research report, entitled *Globalization and Canada's Financial Markets*, provided the analytical findings to support the policy proposals contained in *A New Frontier*. It documented the growth of international financial markets, the role of Canadian borrowers and financial institutions in those markets, the increasing use of new instruments, and the increased entry of foreign financial institutions into domestic markets. It explored the implications of these changes for Canada and for the stability of the world financial system. It paid particular attention to the way in which Canada must change its financial regulations in order to meet the challenges created by the more highly internationalized financial system.

The members of the research team included André Ryba, project director, Keith Patterson, Andrée Mayrand, Pierre Mercier, Ashok Nigam, Hani Zayat, and Carole Morris, secretary.

Agriculture

Two studies dealing with agriculture were published. The first, *Canadian Agricultural Policy and Prairie Agriculture*, by Murray Fulton, Ken Rosaasen, and Andrew Schmitz, examined the crisis of Prairie agriculture in the 1980s, with particular attention to the build-up of farm debt. It also reviewed the major programs that the federal government has used in recent years to support Prairie grain farmers. The study investigated the role that these programs have played in aggravating or alleviating the crisis, and it looked at their overall impact on the Prairie farm sector. The second study, Ludwig Auer's *Canadian Prairie Farming, 1960-2000 – An Economic Analysis*, assessed the magnitude of the farm financial crisis in the Prairie provinces, identified the underlying causes, examined the effectiveness of existing government programs, explored alternative policy options, and projected what farm adjustments are likely to occur in the future.

Service Economy

The Council released a Statement on employment in the service

economy, entitled *Good Jobs, Bad Jobs*. This Statement focused on the shifting structure of the Canadian economy, from one based on resources and manufacturing to one where most people are now involved in the production of services. It examined a number of dimensions of the emerging labour market, including the factors that explain the growth of service employment, the nature of the jobs that are being created, and the labour adjustment associated with the changing employment structure. The report concluded that fundamental changes are occurring in the labour market and that many of Canada's institutions and patterns of behaviour must be reshaped to build a first-class work force and to enhance the security of workers in the future. To this end, it considered a range of policy issues in the areas of training and labour adjustment, employment benefit standards, and industrial and regional development.

The members of the research team included Gordon Betcherman, project director, Marcel Bédard, Christina Caron, Surendra Gera, Norman Leckie, Kathryn McMullen, Benoît Papillon, Harry Postner, Syed Sajjadur Rahman, Tom Siedule, and Juliette Beaugé-Legault, secretary.

Perspective 2000

The Perspective 2000 project was launched in the fall of 1987 as part of the celebrations surrounding the 25th anniversary of the Council. The original idea was to identify and explore a wide range of public policy issues likely to be facing Canada at the turn of the next century.

Main Themes

The project was organized around four subject "blocks" or main themes:
- the first block, aimed at mapping out the global setting – i.e., the physical, geopolitical, and economic environment of the year 2000; the major environmental and demographic trends; and scientific and technological progress;
- the second block, dealing with Canada's place in the world economy, the structure and competitive capacity of the Canadian economy, and the redistributive impact of structural change;
- the third block, on the question of human-resource development and the role of education; and
- the fourth block, focusing on the process of economic policy development and on the role of economic advisers.

Results

The unique approach adopted for the Perspective 2000 project led to a series of events that differed markedly from the Council's usual products.

Perspective 2000 Conference

The centrepiece of the project was the Perspective 2000 Conference, which took place in Ottawa on 30 November and 1 December 1988. The Council's research staff first undertook the task of deciding what the most important general-interest issues might be in the year 2000 and then developed the framework of the Conference around these themes. Twelve eminent scholars were invited to prepare papers with a distinctly international flavour, and twelve other experts were asked to serve as discussants to analyse the material from a specifically Canadian viewpoint.

The Conference provided a unique opportunity for its participants to reflect upon and discuss the many challenges and dilemmas that Canadians will face in the future. In fact, one way of describing the event would be to call it an "intellectual feast."

Seminars

Concerned with reaching a wider audience of decision makers than just those present at the Conference, the Perspective 2000 team developed a brief presentation summarizing the major themes and questions raised at the Conference. This material was used in a series of seminars and workshops involving various groups across the country. Eight seminars and workshops were held between May and November 1989, most of them co-sponsored by other public and private organizations.

These seminars provided the opportunity to reach a wide range of decision makers from provincial and municipal governments, the business community, and the labour movement.

The proceedings of the Conference were released in May 1990. A separate synopsis, covering the major issues and problems raised in the course of the project, will be published at the same time.

Submission to the Finance Committee

The Council made two submissions to the House of Commons Finance

Committee in order to present its position on the federal government's proposed Goods and Services Tax. A number of simulations of the economic impact of the new tax were undertaken; they revealed that the effects of the GST were significantly less when a lower tax rate was used. The Council's position was based around the following parameters:

- the tax base should be broadened by eliminating as many exemptions as possible;
- a broader tax base would enable the government to impose a lower tax rate; and
- a lower tax rate would help to convince the provinces to integrate their own sales tax with the new federal tax.

Submission to the Senate Committee

Representatives from the Council appeared before the Senate Committee on Banking, Trade and Commerce to discuss issues related to international finance; before the Senate Committee on Energy and Natural Resources to discuss the role and future of Petro-Canada; and before the Senate Committee on Social Affairs to discuss issues of regional disparities and also technological change.

Seminars

The Economic Council regularly holds a series of seminars during the course of the year. In some cases, these short and informal presentations serve to explain some of the Council's own research activities, while in other instances they give researchers working in different areas of economics at other institutions an opportunity to explain their work to their Council colleagues. The Council is sometimes able to take advantage of a visit by a distinguished economist. The topics covered are varied. The following is a list of the seminars held during the 1989-90 fiscal year.

14 April 1989: Robert M. Stern, University of Michigan and Brandeis University, and Alan V. Deardorff, University of Michigan, "Alternative scenarios for multilateral trade liberalization under the Uruguay Round – An impact analysis."

28 April 1989: John Whalley, University of Western Ontario, "Coalition in the Uruguay Round; the extent, pros and cons of developing country participation."

15 May 1989: Dr. Chen Bao-Sen, Institute of American Studies, Chinese Academy of Social Sciences, Beijing, China, "China's economic reform; challenges and prospects."

23 May 1989: E. Mike Murphy, Demographic Review Secretariat, "Findings review of demography and its implications for economic and social policy."

27 June 1989: Dr. Chikashi Moriguchi, Institute of Social and Economic Research, University of Osaka, Japan, "Domestic demand expansion and recent changes in import structure."

29 June 1989: Douglas House, Institute of Social and Economic Research, Memorial University of Newfoundland, "Unemployment insurance and regional development."

15 September 1989: Calvin S. Goldman Q.R., Bureau of Competition Policy, Consumer and Corporate Affairs Canada, "Administration of the merger provisions of the Competition Act: Some recent developments."

29 September 1989: Derek Hum and Wayne Simpson, University of Manitoba, "Estimating labour supply functions; the relative contribution of econometric refinements and data improvements."

31 October 1989: Jan Kowalski, University of Karlsruhe, West Germany, "From Marx to market."

10 November 1989: Leonard Dudley, University of Montréal, "Disequilibrium with contemporaneous supply adjustment in a model of public spending."

27 November 1989: David E. Bloom, Columbia University, "An analysis of the earnings of Canadian immigrants."

8 December 1989: Gilles Paquet, University of Ottawa, "Ethics and economics, the two faces of Janus or political economy should not have been eviscerated of its ethical content."

5 January 1990: Lynn Krieger Mytelka, Carleton University, "Strategic partnering activity by European firms through the Esprit Program."

19 January 1990: John B. Robinson, University of Waterloo, "Designing a sustainable society for Canada."

5 February 1990: Sylvia Ostry, Centre for International Studies, University of Toronto, "The political economy of policymaking in the triad."

In addition, internal seminars were occasionally given by Council researchers to provide up-to-date information on research in progress at the Council.

Ongoing Research

Performance and Outlook

This research group is responsible for maintaining and developing econometric models, as well as for ensuing database management related to macroeconomic data at the Council. The group also performs periodic assessments of the medium-term economic outlook. The analytical material related to these assessments is used as an input to the Pacific Economic Outlook, sponsored by the Pacific Economic Cooperation Conference, and also forms the basis for the macroeconomic simulations that appear each year in the Annual Review. Current research is focused on an assessment of the impact of zero inflation, the peace dividend, and alternative monetary- and fiscal-policy regimes.

Substantial emphasis is also being placed on labour market issues and conditions. Key characteristics of the unemployed are being studied in order to develop models that help to explain why the structural characteristics of Canada's regional economies may lead to differing unemployment rates in the regions. As well, a number of transitional probability models have been constructed for each province to separate the incidence of unemployment from the duration of unemployment. In addition, models have been constructed which are designed to isolate the impact of the changing patterns of exports and imports on employment growth by industry. Changing trade patterns around the world continue to put pressure on the composition of Canadian exports and imports, and these effects make their way directly to Canadian labour markets.

The theme of the Council's Twenty-Seventh Annual Review deals with labour markets, and specifically with the unemployment dilemma. The Review will examine three key aspects of the Canadian unemployment experience: the upward trend in the aggregate unemployment rate; the persistence of unemployment; and the disparity between regional unemployment rates. The Review will also relate important world events in the Pacific Rim, Europe, and North America to Canada's position in the world as a trading nation. Issues pertaining to the Eastern European situation will be assessed within the context of the various imbalances that already exist among the most important trading nations.

The Performance and Outlook during the past year also made a substantial contribution to the debate on the Goods and Services Tax. In the fall of 1989, two important submissions outlined the macroeconomic impact of the GST on prices, output, deficits, employment, productivity, and so on.

Competitivity and International Trade

The Council has launched the second phase of its research on trade liberalization, focusing on multilateral patterns of trade and competitiveness. The study will exploit a comprehensive new world-trade database in order to analyse the historical evolution of Canada's trade, by country and by commodity. It will compare the competitiveness of Canadian industry with that of other industrialized countries and of some of the newly industrialized economies. This will require new and more comprehensive measures of competitiveness. The study will also examine the trends in Canada's international commercial relations.

Local Development

The Council will publish a Statement on community economic development. Over the past two years, the Council has examined the record of community development initiatives through a series of case studies that were published during 1989-90. The second phase of the project will focus on the context within which local-development initiatives take place and will evaluate their actual and potential impact on the future of communities facing adversity.

Corporate Mergers and Acquisitions

This pilot study tracks the Canadian merger experience during recent decades. It also examines the 100-odd mergers of publicly traded firms that occurred between 1963 and 1983 in order to determine whether they operated more profitably after acquisition than they did before. A first draft has been completed and has been circulated for comments.

Education

Research will begin on a project dealing with education. The project's focus will be on the ability of our education and training systems to meet a critical challenge and on Canada's ability to pursue vigorously a range of actions that will enhance productivity and competitiveness and

thereby ensure the country's survival and prosperity in the global economy. While it is clearly understood that the goals of education are extremely broad, this project will concentrate primarily, although not exclusively, on economic factors. The quality and efficacy of the education system will constitute a primary focus.

The Service Economy

The Council will publish a research report on the service economy. This report will present the Council's analysis of changing labour markets and, in particular, of the implications of the growing importance of the service economy. It will contain a detailed examination of the growth of service employment, labour adjustment associated with the changing industrial structure, the nature of the new service jobs, and trends in income distribution. The report will also discuss the implications of the changing labour market for training and education.

Immigration

The Council will release a Statement on immigration. This project will examine the advantages and disadvantages of increasing immigration into Canada, either for its own sake or as a means of postponing or even reversing the expected decline in population in the next century. It will pose both economic and social questions with respect to the impact of immigration on living standards, on employment and unemployment, and on provincial revenues and expenditures. It will also explore the impact of a culturally more diverse society on both racial and cultural harmony.

Social Policy

The Council's research on social policy will continue; the results will be published, and a Council Statement may be released. This project focuses on the nature of poverty and the effectiveness of federal and provincial programs in alleviating its effects or removing its causes. The study will seek to better understand the causes of poverty and the relevant types of government intervention. A longitudinal database is being constructed to track a large sample of families and individuals over time. Parallel to the investigation of the nature of poverty, an analysis of federal and provincial tax, transfer, and social-service programs will be carried out for some provinces, in order to study program interrelationships, costs and benefits, and unintended incentives, as well as the mix of income- and employment-enhancement programs.

Perspective 2000

The proceedings of the "Perspective 2000" conference were published in May 1990, along with a synopsis prepared by the Council's staff.

Publications of the Economic Council of Canada, 1989/90

Annual Report, 1988/89
Judith Maxwell (EC1/1989E – available free from the Economic Council)

Annual Review
Twenty-Sixth Annual Review: **Legacies**, 1989 (EC21-1/1989E; $8.95 in Canada and US$10.75 in other countries)

Council statements

A New Frontier: Globalization and Canada's Financial Markets (EC22-160/1989E; $5.95 in Canada and US$7.15 in other countries)

Good Jobs, Bad Jobs: Employment in the Service Economy (EC22-164/1990E; $5.95 in Canada and US$7.15 in other countries)

Research report

Globalization and Canada's Financial Markets (EC22-162/1989E; $15.95 in Canada and US$19.15 in other countries)

Research studies

Regulatory Failure and Renewal: The Evolution of the Natural Monopoly Contract
John R. Baldwin (EC22-157/1989E; $11.25 in Canada and US$13.50 in other countries)

Canadian Agricultural Policy and Prairie Agriculture
Murray Fulton, Ken Rosaasen, and Andrew Schmitz (EC22-159/1989E; $11.95 in Canada and US$14.35 in other countries)

Canadian Prairie Farming, 1960-2000: An Economic Analysis
L. Auer (EC22-161/1989E; $10.95 in Canada and US$13.15 in other countries)

Periodical

Au Courant, Vol. 10, Nos. 1, 2, 3, and 4 (available free from the Economic Council)

Brochure

Catalogue of Publications (EC1-1/1990; available free from the Economic Council)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Publications Division, Economic Council of Canada, P. O. Box 527, Ottawa, Ontario K1P 5V6.

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and the
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1990. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the results of operations of the Council for the year ended March 31,1990, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 1, 1990

Economic Council of Canada

Statement of Operations
Year ended March 31, 1990

	1990	1989
	$	$
EXPENDITURE		
Economic research and policy analysis		
Salaries and employee benefits	**5,027,359**	4,802,624
Employee termination benefits	**45,288**	4,516
Professional and special services	**674,425**	656,739
Supplies, furniture and equipment	**311,625**	461,729
Travel, communication and publication	**211,679**	254,558
Rental, repair and maintenance of equipment	**157,780**	177,518
Miscellaneous	**20**	8
	6,428,176	6,357,692
Consultation and public information		
Salaries and employee benefits	**1,795,307**	1,696,442
Employee termination benefits	**55,295**	8,006
Travel, communication and publication	**148,118**	140,341
Professional and special services	**112,707**	95,577
Council meetings	**99,329**	84,258
Supplies, furniture and equipment	**9,834**	12,994
Rental, repair and maintenance of equipment	**5,908**	6,144
Miscellaneous	**114**	169
	2,226,612	2,043,931
Administration		
Salaries and employee benefits	**755,990**	734,978
Employee termination benefits	**–**	52,909
Accommodation	**715,294**	730,756
Travel, communication and publication	**141,468**	233,924
Supplies, furniture and equipment	**133,069**	139,716
Professional and special services	**105,691**	124,828
Rental, repair and maintenance of equipment	**57,292**	51,152
Miscellaneous	**1,205**	3,212
	1,910,009	2,071,475
	10,564,797	10,473,098
REVENUE		
Non-tax revenue		
Refunds of previous years' expenditure	**13,603**	344
Miscellaneous	**86,920**	40,000
	100,523	40,344
Net cost of operations (*note 3*)	**10,464,274**	10,432,754

The accompanying notes are an integral part of this statement.
Approved by the Council:

Judith Maxwell
Chairman

Robert Woods
Director, Finance and Administration

Economic Council of Canada

Notes to the Statement of Operations
March 31, 1990

1. Authority and purpose

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule II of the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The Statement of Operations has been prepared using the following accounting policies:

(a) Expenditure recognition
All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Revenue recognition
Revenue is recorded on the cash receipts basis in accordance with the Government's accounting policies.

(c) Capital purchases
Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(d) Services provided without charge
Estimates of amounts for services provided without charge from Government departments are included in expenditures.

(e) Refunds of previous years' expenditure
Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

	1990	1989
	$	$
Privy Council		
Vote 20	**8,532,000**	8,537,000
Supplemented by Treasury Board		
Vote 5	**185,000**	146,000
	8,717,000	8,683,000
Lapsed	**9,897**	82,834
	8,707,103	8,600,166
Statutory contributions to employee benefit plans	**983,000**	998,000
Total use of appropriations	**9,690,103**	9,598,166
Add: Services provided without charge by other Government departments	**874,694**	874,932
Less: Non-tax revenue	**100,523**	40,344
Net cost of operations	**10,464,274**	10,432,754

4. Changes in the Statement of Operations' presentation

The allocation of expenditures between economic research and policy analysis, consultation and public information, and administration has been revised this year to better reflect the nature of activities of the Council. The amounts appearing in this Statement of Operations for 1988-89, presented for comparative purposes, have been restated to conform to the 1989-90 presentation.

Organization Structure

Chairman
Judith Maxwell

Deputy Chairman and Director of Council
Caroline Pestieau

Deputy Chairman and Director of Council
Harvey Lazar

Senior Policy Advisor
Robert A. Jenness

Corporate Secretary
Warren H. Maidens

Public Affairs
Richard R. Bélec

Research Directors:
Twenty-Seventh Annual Review
Ross Preston

Performance and Outlook
Ross Preston

Manufacturing Firm Adjustment
Paul Gorecki

Unemployment Issues
Surendra Gera

Employment and the Service Economy
Gordon Betcherman

Perspective 2000
Keith Newton

International Finance
André Ryba

International Trade
Sunder Magun

Local Development
Tim O'Neill

Social Policy
Brian Powell

Immigration
Neil Swan

Education
Keith Newton

Support Services:
Publications
Jacques Fortin

Informatics
André Bourdon

Finance and Administration
Robert Woods

Personnel
Colleen Barbeau